

HIGHLAND COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

JUNE 30, 2010

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HIGHLAND COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2009 Election)		
Mike Roberts	Board President	2013
Ed Ossman	Board Member	2011
Bruce Temple	Board Member	2011
Robert Schneider, Jr.	Board Member	2011
Cindy Michel	Board Member	2011
Becky Hanson	Board Member	2013
Kevin Engel	Board Member	2013
(After September 2009 Election)		
Mike Roberts	Board President	2013
Ed Ossman	Board Member	2011
Bruce Temple	Board Member	2011
Robert Schneider, Jr.	Board Member	2011
Cindy Michel	Board Member	2011
Becky Hanson	Board Member	2013
Kevin Engel	Board Member	2013
School Officials		
Chris Armstrong	Superintendent	2010
Bev Colbert	District Secretary/Treasurer	Indefinite
C. Joseph Holland	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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Independent Auditor's Report

To the Board of Education
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Highland Community School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated March 2, 2011 on my consideration of Highland Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 6 and Schedule 8 Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the seven years in the period ended June 30, 2010, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Highland Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,378,861 in fiscal 2009 to \$6,379,150 in fiscal 2010, while General Fund expenditures increased from \$6,647,054 in fiscal 2009 to \$6,738,525 in fiscal 2010. The District's General Fund balance decreased from \$(208,575) in fiscal 2009 to \$(567,450) in fiscal 2010, a 172% decrease.
- The flatness of the General Fund revenues was attributable to the underfunding of state aid and the 10% across-the-board budget cut that was implemented by Governor Culver in October 2009. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits of the certified staff. The decrease in the General Fund balance was primarily due to the 10% across-the-board budget cut in the amount of \$311,629.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Highland Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Highland Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental and enterprise funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

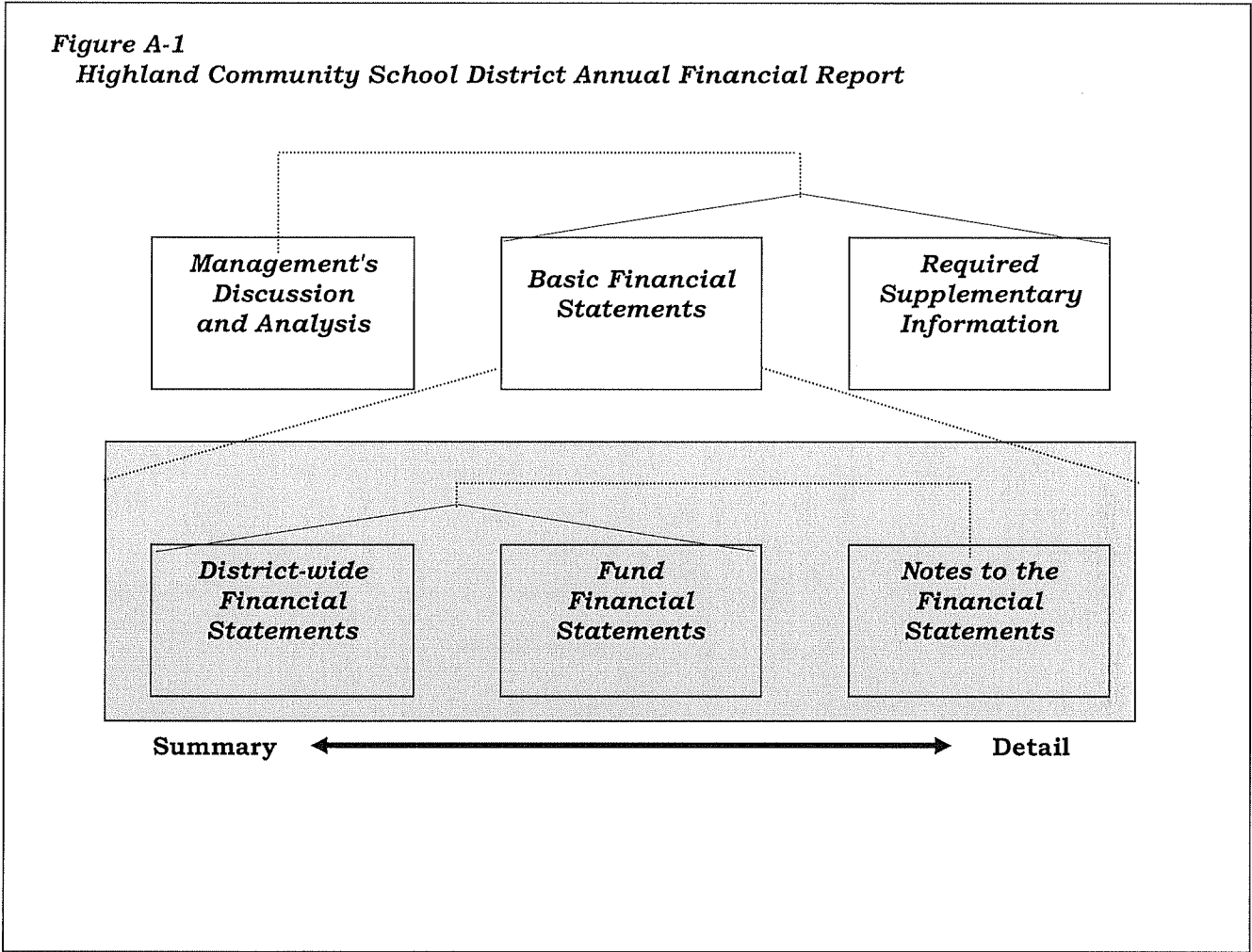


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool program
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator

of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Current and other assets	\$ 4,809,216	\$ 8,701,858	\$ 15,360	\$ 14,806	\$ 4,824,576	\$ 8,716,664	-44.65%
Capital assets	<u>8,128,534</u>	<u>5,110,219</u>	<u>19,043</u>	<u>19,397</u>	<u>8,147,577</u>	<u>5,129,616</u>	58.83%
Total assets	<u>12,937,750</u>	<u>13,812,077</u>	<u>34,403</u>	<u>34,203</u>	<u>12,972,153</u>	<u>13,846,280</u>	-6.31%
Long-term liabilities	5,932,393	6,009,249	-	-	5,932,393	6,009,249	-1.28%
Other liabilities	<u>3,853,287</u>	<u>4,548,887</u>	<u>38,061</u>	<u>41,360</u>	<u>3,891,348</u>	<u>4,590,247</u>	-15.23%
Total liabilities	<u>9,785,680</u>	<u>10,558,136</u>	<u>38,061</u>	<u>41,360</u>	<u>9,823,741</u>	<u>10,599,496</u>	-7.32%
Net assets							
Invested in capital assets,							
net of related debt	2,648,534	2,324,095	19,043	19,397	2,667,577	2,343,492	13.83%
Restricted	1,460,306	1,113,466	-	-	1,460,306	1,113,466	31.15%
Unrestricted	<u>(956,770)</u>	<u>(183,620)</u>	<u>(22,701)</u>	<u>(26,554)</u>	<u>(979,471)</u>	<u>(210,174)</u>	-366.03%
Total net assets	<u>\$ 3,152,070</u>	<u>\$ 3,253,941</u>	<u>\$ (3,658)</u>	<u>\$ (7,157)</u>	<u>\$ 3,148,412</u>	<u>\$ 3,246,784</u>	-3.03%

The District's combined net assets decreased by approximately 3%, or \$98,372, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$346,840, or approximately 31% over the prior year. The increase was primarily a result of ARRA funding from the federal government.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$769,297, or approximately 366%. This decrease in unrestricted net assets was a result of the District's revenues being flat due to the 10% budget cut and the underfunding of state aid.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4

Change in Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Revenues							
Program revenues							
Charges for service	\$ 1,094,572	\$ 663,569	\$ 201,603	\$ 192,441	\$ 1,296,175	\$ 856,010	51.42%
Operating grants and contributions	1,232,098	871,081	138,030	111,002	1,370,128	982,083	39.51%
General revenues							
Property tax	2,839,688	2,667,557	-	-	2,839,688	2,667,557	6.45%
Statewide sales, services and use tax	393,593	401,248	-	-	393,593	401,248	-1.91%
Unrestricted state grants	2,430,539	2,962,476	-	-	2,430,539	2,962,476	-17.96%
Contributions and donations	-	174,265	-	-	-	174,265	-100.00%
Unrestricted investment earnings	11,479	36,641	38	79	11,517	36,720	-68.64%
Other	24,306	15,531	-	-	24,306	15,531	56.50%
Contributed capital	-	-	-	14,454	-	14,454	-100.00%
Total revenues	<u>8,026,275</u>	<u>7,792,368</u>	<u>339,671</u>	<u>317,976</u>	<u>8,365,946</u>	<u>8,110,344</u>	3.15%
Program expenses							
Governmental activities							
Instruction	5,042,228	4,511,755	-	-	5,042,228	4,511,755	11.76%
Support services	2,287,329	2,385,460	-	-	2,287,329	2,385,460	-4.11%
Non-instructional programs	-	-	336,172	309,409	336,172	309,409	8.65%
Other expenses	<u>798,589</u>	<u>955,795</u>	<u>-</u>	<u>-</u>	<u>798,589</u>	<u>955,795</u>	-16.45%
Total expenses	<u>8,128,146</u>	<u>7,853,010</u>	<u>336,172</u>	<u>309,409</u>	<u>8,464,318</u>	<u>8,162,419</u>	3.70%
Change in net assets	(101,871)	(60,642)	3,499	8,567	(98,372)	(52,075)	88.90%
Net assets, beginning of year	<u>3,253,941</u>	<u>3,314,583</u>	<u>(7,157)</u>	<u>(15,724)</u>	<u>3,246,784</u>	<u>3,298,859</u>	-1.58%
Net assets, end of year	<u>\$ 3,152,070</u>	<u>\$ 3,253,941</u>	<u>\$ (3,658)</u>	<u>\$ (7,157)</u>	<u>\$ 3,148,412</u>	<u>\$ 3,246,784</u>	-3.03%

In fiscal 2010, property tax and unrestricted state grants account for approximately 65% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for approximately 99% of the revenue from business type activities.

The District's total revenues were \$8,365,946 of which \$8,026,275 was for governmental activities and \$339,671 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3% increase in revenues and a 4% increase in expenses. The increase in revenues was due to increased property taxes, charges for services, and donations and grants from the Washington County Riverboat Foundation. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in non-instructional programs.

Governmental Activities

Revenues for governmental activities were \$8,026,275 and expenses were \$8,128,146 for the year ended June 30, 2010. In a difficult budget year, the District's expenditures were greater than revenues due to underfunding of state aid payments and the 10% budget cut implemented by Governor Culver. This would have been worse if not for the fact that the cash reserve levy was increased by \$115,000.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Instruction	\$ 5,042,228	\$ 4,511,755	11.8%	\$ 2,976,204	\$ 3,215,112	-7.4%
Support services	2,287,329	2,385,460	-4.1%	2,286,190	2,382,080	-4.0%
Other expenses	<u>798,589</u>	<u>955,795</u>	-16.4%	<u>539,082</u>	<u>721,168</u>	-25.2%
Total expenses	<u>\$ 8,128,146</u>	<u>\$ 7,853,010</u>	3.5%	<u>\$ 5,801,476</u>	<u>\$ 6,318,360</u>	-8.2%

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$1,094,572.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,232,098.
- The net cost of governmental activities was financed with \$3,233,281 in property and other taxes and \$2,430,539 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$339,671 representing a 6% increase over the prior year while expenses totaled \$336,172, an 8% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income. The increase in revenues was due to more students utilizing the school hot lunch program and the increase in expenditures was due to the greater utilization of the federal commodities program.

INDIVIDUAL FUND ANALYSIS

As previously noted, Highland Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$787,376, well below last year's ending fund balances of \$3,942,076. The primary reason for the decrease was due to the payment for the construction project at the middle school/high school buildings.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. The primary factor was the 10% budget cut and the underfunding of state aid payments.
- The General Fund balance decreased from \$(208,575) to \$(567,450), due to the fact that revenues were flat and expenditures increased by 1.4%.
- The Capital Fund balance decreased from \$3,985,340 to \$1,215,038 due to the payment for the construction project at the middle school/high school buildings.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$(7,157) at June 30, 2009 to \$(3,658) at June 30, 2010, representing an increase of approximately 48%. This increase was due to greater participation in the school hot lunch program during fiscal year 2010.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended its budget one time to reflect additional expenditures associated with the school nutrition fund and the capital projects fund due to the construction project.

The District's revenues were \$69,951 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more revenue from local sources and federal ARRA funding that was not budgeted for.

Total expenditures were \$797,133 less than budgeted, due to balances in the Capital Projects fund due to the construction project not being completed by June 30, 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$8,147,577, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of approximately 56% over last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$375,263.

The original cost of the District's capital assets was \$11,892,475. Governmental funds account for \$11,793,542, with the remainder of \$98,933 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category, which increased from nothing in 2009 to \$2,710,822 in 2010. This was due to the construction project started during fiscal year 2010.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Land	\$ 76,612	\$ 76,612	\$ -	\$ -	\$ 76,612	\$ 76,612	0.00%
Construction in progress	2,710,822	-	-	-	2,710,822	-	100.00%
Buildings and improvements	4,466,862	4,160,494	-	-	4,466,862	4,160,494	7.36%
Improvements, other than buildings	331,006	338,034	-	-	331,006	338,034	-2.08%
Furniture and equipment	<u>543,232</u>	<u>535,079</u>	<u>19,043</u>	<u>19,397</u>	<u>562,275</u>	<u>554,476</u>	1.41%
Totals	<u>\$8,128,534</u>	<u>\$5,110,219</u>	<u>\$19,043</u>	<u>\$19,397</u>	<u>\$8,147,577</u>	<u>\$5,129,616</u>	58.83%

Long-Term Debt

At June 30, 2010, the District had \$5,932,393 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 1% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District continues to carry a general obligation bond rating of A assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$10 million.

Figure A-7

Outstanding Long-term Obligations			
	Total District		Total Change
	2010	2009	2009-2010
General obligation bonds	\$ 1,615,000	\$ 1,770,000	-8.76%
Revenue bonds	3,560,000	3,660,000	-2.73%
Capital loan notes	305,000	450,000	-32.22%
Compensated absences	60,220	46,642	29.11%
Termination benefits	187,496	82,607	126.97%
Net OPEB liability	204,677	-	100.00%
Total	<u>\$ 5,932,393</u>	<u>\$ 6,009,249</u>	-1.28%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In August 2006 a vote was held to build a new casino in Riverside, Iowa. The property will be annexed into the city and even though the area will be in a tax increment district for a maximum of ten years to pay for water and sewer infrastructure it will affect the tax base in the immediate future for the debt service and physical plant and equipment levies. A private foundation has been formed to allocate funds (\$2.6 to \$3.2 million) annually to public entities such as school districts, non-profit organizations and for economic development. This will have a long-term affect on the district due to an increased tax base, foundation funds, one-cent sales tax, increased employment and therefore an increase in people moving into the district.
- PPEL and SILO funds are now used for major purchases that were previously paid for out of the General Fund. We will not longer be using the General Fund for major purchases that can now be purchased from the PPEL and SILO Funds.
- The State of Iowa passed a one-cent penny sales tax, effective July 1, 2009, to be used for school infrastructure, which replaced the SILO taxes voted on by the 99 Iowa counties. The Highland Community School District passed a new revenue purpose statement on September 9, 2008. This gives Highland the power to borrow against these funds through 2029. We sold \$3,660,000 of revenue bonds on June 1, 2009 to finance a building project to do necessary improvements and additions to the middle school/high school building without using property taxes and still have funds remaining to do necessary building repairs/maintenance and the purchase of transportation equipment.

- The Board has earmarked \$50,000 per year for computer hardware from the SILO fund. Also, we have applied for and received grants from the Washington County Riverboat Foundation for major technology purchases. We will continue to use this new avenue of funding for major equipment acquisitions and additions to the Highland Community School District, which frees up funds in the General Fund for other expenses.
- The Board purchased approximately 16 acres of farmland adjacent to the secondary building site on December 30, 2010. This purchase will allow the district to expand its athletic facilities, parking areas, bus barn or whatever other buildings it may deem necessary in the future.
- To improve the financial position of the school lunch program we are continuing with the state coop purchasing program and closely monitoring revenues and expenditures. We also increased the prices of breakfast and lunch for the 2009-10 school year and have doubled our usage of the federal commodities program.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bev Colbert, Board Secretary/Treasurer, Highland Community School District, 1715 Vine Avenue, Riverside, Iowa 52327.

Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents			
Cash with fiscal agent	\$ 305,947	\$ -	\$ 305,947
Other	1,214,973	12,821	1,227,794
Receivables			
Property tax			
Delinquent	57,112	-	57,112
Succeeding year	2,712,685	-	2,712,685
Income surtax	265,483	-	265,483
Accounts receivable	2,338	-	2,338
Due from other governments	239,178	462	239,640
Due from other fund	11,500	-	11,500
Inventories	-	2,077	2,077
Non-depreciable capital assets	2,787,434	-	2,787,434
Capital assets, net of accumulated depreciation	5,341,100	19,043	5,360,143
Total assets	<u>12,937,750</u>	<u>34,403</u>	<u>12,972,153</u>
Liabilities			
Accounts payable	460,615	662	461,277
Salaries and benefits payable	580,487	22,203	602,690
Accrued interest payable	99,500	-	99,500
Due to other fund	-	11,500	11,500
Due to other governments	-	3,696	3,696
Deferred revenue			
Succeeding year property tax	2,712,685	-	2,712,685
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	165,000	-	165,000
Revenue bonds payable	100,000	-	100,000
Capital loan notes payable	150,000	-	150,000
Termination benefits	47,961	-	47,961

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Liabilities (continued)			
Portion due after one year			
General obligation bonds payable	\$ 1,450,000	\$ -	\$ 1,450,000
Revenue bonds payable	3,460,000	-	3,460,000
Capital loan notes payable	155,000	-	155,000
Compensated absences	60,220	-	60,220
Termination benefits	139,535	-	139,535
Net OPEB liability	204,677	-	204,677
Total liabilities	<u>9,785,680</u>	<u>38,061</u>	<u>9,823,741</u>
Net Assets			
Invested in capital assets, net of related debt	2,648,534	19,043	2,667,577
Restricted for			
Categorical funding	129,863	-	129,863
Physical plant and equipment levy	28,342	-	28,342
Other special revenue purposes	87,063	-	87,063
Capital projects	1,215,038	-	1,215,038
Unrestricted	(956,770)	(22,701)	(979,471)
Total net assets	<u>\$ 3,152,070</u>	<u>\$ (3,658)</u>	<u>\$ 3,148,412</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Instruction							
Regular instruction	\$ 2,943,157	\$ 505,011	\$ 818,380	\$ -	\$ (1,619,766)	\$ -	\$ (1,619,766)
Special instruction	1,134,531	181,829	150,219	-	(802,483)	-	(802,483)
Other instruction	964,540	407,732	2,853	-	(553,955)	-	(553,955)
	<u>5,042,228</u>	<u>1,094,572</u>	<u>971,452</u>	<u>-</u>	<u>(2,976,204)</u>	<u>-</u>	<u>(2,976,204)</u>
Support services							
Student	126,577	-	-	-	(126,577)	-	(126,577)
Instructional staff	298,995	-	-	-	(298,995)	-	(298,995)
Administration	925,216	-	-	-	(925,216)	-	(925,216)
Operation and maintenance of plant	613,877	-	-	-	(613,877)	-	(613,877)
Transportation	322,664	-	1,139	-	(321,525)	-	(321,525)
	<u>2,287,329</u>	<u>-</u>	<u>1,139</u>	<u>-</u>	<u>(2,286,190)</u>	<u>-</u>	<u>(2,286,190)</u>
Other expenses							
Facilities acquisition	90,420	-	-	-	(90,420)	-	(90,420)
Long-term debt interest	268,686	-	-	-	(268,686)	-	(268,686)
AEA flowthrough	259,507	-	259,507	-	-	-	-
Loss on disposal of capital assets	20,503	-	-	-	(20,503)	-	(20,503)
Depreciation (unallocated) *	159,473	-	-	-	(159,473)	-	(159,473)
	<u>798,589</u>	<u>-</u>	<u>259,507</u>	<u>-</u>	<u>(539,082)</u>	<u>-</u>	<u>(539,082)</u>
Total governmental activities	<u>8,128,146</u>	<u>1,094,572</u>	<u>1,232,098</u>	<u>-</u>	<u>(5,801,476)</u>	<u>-</u>	<u>(5,801,476)</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs (continued)							
Business type activities							
Non-instructional programs							
Food service operations	\$ 305,630	\$ 176,360	\$ 138,030	\$ -	\$ -	\$ 8,760	\$ 8,760
Preschool operations	30,542	25,243	-	-	-	(5,299)	(5,299)
Total business type activities	336,172	201,603	138,030	-	-	3,461	3,461
Total	<u>\$ 8,464,318</u>	<u>\$ 1,296,175</u>	<u>\$ 1,370,128</u>	<u>\$ -</u>	<u>(5,801,476)</u>	<u>3,461</u>	<u>(5,798,015)</u>
General Revenues							
Property tax levied for							
General purposes					2,240,815	-	2,240,815
Debt service					229,307	-	229,307
Capital outlay					369,566	-	369,566
Statewide sales, services and use tax					393,593	-	393,593
Unrestricted state grants					2,430,539	-	2,430,539
Unrestricted investment earnings					11,479	38	11,517
Other					24,306	-	24,306
Total general revenues					<u>5,699,605</u>	<u>38</u>	<u>5,699,643</u>
Change in net assets					(101,871)	3,499	(98,372)
Net assets, beginning of year					3,253,941	(7,157)	3,246,784
Net assets, end of year					<u>\$ 3,152,070</u>	<u>\$ (3,658)</u>	<u>\$ 3,148,412</u>

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet Governmental Funds June 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments				
Cash with fiscal agent	\$ -	\$ 305,947	\$ -	\$ 305,947
Other	-	1,100,541	135,532	1,236,073
Receivables				
Property tax				
Delinquent	43,481	-	13,631	57,112
Succeeding year	1,915,482	-	797,203	2,712,685
Accounts receivable	2,338	-	-	2,338
Income surtax	265,483	-	-	265,483
Due from other governments	165,086	74,005	87	239,178
Due from other fund	11,500	-	-	11,500
Total assets	<u>\$2,403,370</u>	<u>\$1,480,493</u>	<u>\$ 946,453</u>	<u>\$4,830,316</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 187,338	\$ 265,455	\$ 7,822	\$ 460,615
Salaries and benefits payable	580,487	-	-	580,487
Negative cash	19,460	-	1,640	21,100
Deferred revenue				
Succeeding year property tax	1,915,482	-	797,203	2,712,685
Income surtax	265,483	-	-	265,483
Other	2,570	-	-	2,570
Total liabilities	<u>2,970,820</u>	<u>265,455</u>	<u>806,665</u>	<u>4,042,940</u>
Fund balances				
Reserved for				
Debt service	-	-	22,101	22,101
Categorical funding	129,863	-	-	129,863
Unreserved, governmental funds	(697,313)	1,215,038	-	517,725
Unreserved, special revenue funds	-	-	117,687	117,687
Total fund balances	<u>(567,450)</u>	<u>1,215,038</u>	<u>139,788</u>	<u>787,376</u>
Total liabilities and fund balances	<u>\$2,403,370</u>	<u>\$1,480,493</u>	<u>\$ 946,453</u>	<u>\$4,830,316</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2010

Exhibit D

Total fund balances of governmental funds	\$ 787,376
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,128,534
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	268,053
---	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(99,500)
--	----------

Long-term liabilities, including bonds and notes payable, compensated absences, termination benefits and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,932,393)</u>
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Net assets of governmental activities	<u><u>\$3,152,070</u></u>
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HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$2,066,407	\$ 393,593	\$ 748,770	\$ 3,208,770
Tuition	603,302	-	-	603,302
Other	48,389	242,436	236,230	527,055
State sources	3,124,390	-	320	3,124,710
Federal sources	536,662	-	-	536,662
Total revenues	<u>6,379,150</u>	<u>636,029</u>	<u>985,320</u>	<u>8,000,499</u>
Expenditures				
Current				
Instruction				
Regular	2,662,953	-	8,950	2,671,903
Special	1,084,270	-	-	1,084,270
Other	816,540	-	110,682	927,222
	<u>4,563,763</u>	<u>-</u>	<u>119,632</u>	<u>4,683,395</u>
Support services				
Student	120,763	-	-	120,763
Instructional staff	218,790	-	167,573	386,363
Administration	790,823	-	104,055	894,878
Operation and maintenance of plant	547,767	-	56,338	604,105
Transportation	237,112	67,695	25,463	330,270
	<u>1,915,255</u>	<u>67,695</u>	<u>353,429</u>	<u>2,336,379</u>
Other expenditures				
Facilities acquisition	-	3,134,396	141,454	3,275,850
Long-term debt				
Principal	-	-	400,000	400,000
Interest and fiscal charges	-	-	200,568	200,568
AEA flowthrough	259,507	-	-	259,507
	<u>259,507</u>	<u>3,134,396</u>	<u>742,022</u>	<u>4,135,925</u>
Total expenditures	<u>6,738,525</u>	<u>3,202,091</u>	<u>1,215,083</u>	<u>11,155,699</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Deficiency of revenues under expenditures	\$ (359,375)	\$(2,566,062)	\$ (229,763)	\$(3,155,200)
Other financing sources (uses)				
Sale of equipment and materials	500	-	-	500
Interfund operating transfers in	-	-	370,285	370,285
Interfund operating transfers (out)	-	(204,240)	(166,045)	(370,285)
Total other financing sources (uses)	<u>500</u>	<u>(204,240)</u>	<u>204,240</u>	<u>500</u>
Net change in fund balances	(358,875)	(2,770,302)	(25,523)	(3,154,700)
Fund balance, beginning of year	<u>(208,575)</u>	<u>3,985,340</u>	<u>165,311</u>	<u>3,942,076</u>
Fund balance, end of year	<u>\$ (567,450)</u>	<u>\$ 1,215,038</u>	<u>\$ 139,788</u>	<u>\$ 787,376</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Exhibit F

Net change in fund balances - total governmental funds \$(3,154,700)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$3,412,335	
	(21,003)	
Loss on disposal of capital assets	(373,017)	3,018,315
Depreciation expense		

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds.	25,776
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	400,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Termination benefits	\$ (104,889)	
	(13,578)	
Compensated absences	(204,677)	(323,144)
Other postemployment benefits		

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(68,118)
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Change in net assets of governmental activities	<u><u>\$ (101,871)</u></u>
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HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2010

Exhibit G

	<u>Nonmajor Enterprise</u>
Assets	
Cash and cash equivalents	\$ 12,821
Due from other governments	462
Inventories	2,077
Capital assets, net of accumulated depreciation	<u>19,043</u>
Total assets	<u>34,403</u>
Liabilities	
Accounts payable	662
Salaries and benefits payable	22,203
Due to other governments	3,696
Due to other fund	<u>11,500</u>
Total liabilities	<u>38,061</u>
Net Assets	
Invested in capital assets	19,043
Unrestricted	<u>(22,701)</u>
Total net assets	<u><u>\$ (3,658)</u></u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 201,603</u>
Operating expenses	
Support services	
Administration	
Salaries	8,209
Benefits	1,160
Purchased services	<u>545</u>
	9,914
Operation and maintenance of plant	
Purchased services	<u>1,745</u>
Total support services	<u>11,659</u>
Non-instructional programs	
Food service operations	293,971
Preschool operations	<u>30,542</u>
Total non-instructional programs	<u>324,513</u>
Total operating expenses	<u>336,172</u>
Operating loss	<u>(134,569)</u>
Non-operating revenue	
Interest income	38
State sources	3,189
Federal sources	<u>134,841</u>
Total non-operating revenue	<u>138,068</u>
Net income	3,499
Net assets, beginning of year	<u>(7,157)</u>
Net assets, end of year	<u><u>\$ (3,658)</u></u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit I

Nonmajor
Enterprise

Cash flows from operating activities	\$ 200,604
Cash received from sale of services	(168,629)
Cash payments to employees for services	<u>(135,395)</u>
Cash payments to suppliers for goods and services	<u>(103,420)</u>
Net cash used in operating activities	
Cash flows from non-capital financing activities	3,189
State grants received	<u>101,617</u>
Federal grants received	<u>104,806</u>
Net cash provided by non-capital financing activities	
Cash flows from capital and related financing activities	<u>(1,892)</u>
Acquisition of capital assets	
Cash flows from investing activities	<u>38</u>
Interest on investments	(468)
Net decrease in cash and cash equivalents	<u>13,289</u>
Cash and cash equivalents, beginning of year	<u>\$ 12,821</u>
Cash and cash equivalents, end of year	<u><u>\$ 12,821</u></u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$(134,569)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,246
Commodities used	32,762
(Increase) in inventory	(560)
(Decrease) in deferred revenue	(999)
(Decrease) in due to other funds	(7,300)
Increase in accounts payable	662
Increase in accrued salaries and benefits	4,338
Net cash used in operating activities	<u><u>\$(103,420)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2010 the District received \$32,762 of federal commodities.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies

The Highland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Ainsworth and Riverside, Iowa, and the predominant agricultural territory in Louisa, Johnson and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Highland Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Highland Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no major proprietary funds. However, the District reports two nonmajor enterprise funds. The School Nutrition Fund, which is used to account for the food service operations of the District and the Preschool/Daycare Fund, which is used to account for the preschool and daycare operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, termination benefits and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives

are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Buses	7 years
Other on-road vehicles	4 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Compensated Absences - Certain District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2010. The early retirement liability attributable to the governmental activities would be paid primarily by the General and Management Funds. This liability has been computed based on amounts established in the District's adopted board policy regarding early retirement benefits.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or

expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds as well as property tax and income surtax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$28,342 restricted net assets which are restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the Non-instructional Programs functional area exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$1,015,501 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Non-major	
General	School Nutrition	\$11,500

The School Nutrition Fund is repaying the General Fund for salaries and benefits paid by the General Fund for food service employees. The balance is expected to be repaid during the fiscal year ending June 30, 2011.

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major	Non-major	
Debt Service	Physical Plant and Equipment Levy	\$ 166,045
Non-major		
Debt Service	Capital Projects	<u>204,240</u>
Total		<u>\$ 370,285</u>

These transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfers from the Physical Plant and Equipment Levy Fund and the Capital Projects Fund to the Debt Service Fund are to make principal and interest payments on long-term debt.

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately

following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.5%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.5%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance, Beginning of Year	Advances Received	Advances Repaid	Balance, End of Year	Interest Payable
2009-10A	6/25/09	6/23/10	\$ -	\$ 1,001,000	\$ 1,001,000	\$ -	\$ -
2009-10B	2/1/10	1/21/11	-	407,000	407,000	-	-
Total			<u>\$ -</u>	<u>\$ 1,408,000</u>	<u>\$ 1,408,000</u>	<u>\$ -</u>	<u>\$ -</u>

During the year ended June 30, 2010, the District paid \$25,794 of interest on the ISCAP warrants.

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 76,612	\$ -	\$ -	\$ 76,612
Construction in progress	-	2,710,822	-	2,710,822
Total capital assets, not being depreciated	<u>76,612</u>	<u>2,710,822</u>	<u>-</u>	<u>2,787,434</u>
Capital assets being depreciated:				
Buildings and improvements	6,013,466	432,823	(8,500)	6,437,789
Improvements other than buildings	639,610	39,977	(20,570)	659,017
Furniture and equipment	1,718,108	228,713	(37,519)	1,909,302
Total capital assets being depreciated	<u>8,371,184</u>	<u>701,513</u>	<u>(66,589)</u>	<u>9,006,108</u>
Less accumulated depreciation for:				
Buildings and improvements	1,852,972	123,055	(5,100)	1,970,927
Improvements other than buildings	301,576	28,673	(2,238)	328,011
Furniture and equipment	1,183,029	221,289	(38,248)	1,366,070
Total accumulated depreciation	<u>3,337,577</u>	<u>373,017</u>	<u>(45,586)</u>	<u>3,665,008</u>
Total capital assets being depreciated, net	<u>5,033,607</u>	<u>328,496</u>	<u>(21,003)</u>	<u>5,341,100</u>
Governmental activities capital assets, net	<u>\$ 5,110,219</u>	<u>\$ 3,039,318</u>	<u>\$ (21,003)</u>	<u>\$ 8,128,534</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 97,041	\$ 1,892	\$ -	\$ 98,933
Less accumulated depreciation	<u>77,644</u>	<u>2,246</u>	<u>-</u>	<u>79,890</u>
Business type activities capital assets, net	<u>\$ 19,397</u>	<u>\$ (354)</u>	<u>\$ -</u>	<u>\$ 19,043</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 56,565
Special	14,963
Other	12,719
Support services	
Student	1,133
Instructional staff	36,549
Administration	19,658
Operation and maintenance of plant	2,676
Transportation	<u>69,281</u>
	213,544
Unallocated depreciation	<u>159,473</u>
Total governmental activities depreciation expense	<u>\$ 373,017</u>

Business type activities

Food services	<u>\$ 2,246</u>
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Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,770,000	\$ -	\$(155,000)	\$ 1,615,000	\$ 165,000
Revenue bonds	3,660,000	-	(100,000)	3,560,000	100,000
Capital loan notes	450,000	-	(145,000)	305,000	150,000
Compensated absences	46,642	29,845	(16,267)	60,220	-
Termination benefits	82,607	148,186	(43,297)	187,496	47,961
Net OPEB liability	-	<u>204,677</u>	<u>-</u>	<u>204,677</u>	<u>-</u>
Totals	<u>\$ 6,009,249</u>	<u>\$ 382,708</u>	<u>\$(459,564)</u>	<u>\$ 5,932,393</u>	<u>\$ 462,961</u>

Interest costs incurred and charged to expense on all long-term debt was \$268,686 for the year ended June 30, 2010. During the year ended June 30, 2010, the District made principal payments on total long-term debt of \$400,000.

General Obligation Bonds

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of November 1, 2005				Bond issue of May 1, 1998			
	Interest Rates	Interest	Principal	Total	Interest Rates	Interest	Principal	Total
2011		\$ 54,102	\$ -	\$ 54,102	4.65%	\$ 12,422	\$ 165,000	\$ 177,422
2012	3.75%	54,102	45,000	99,102	4.75%	4,750	100,000	104,750
2013	3.80%	52,415	195,000	247,415		-	-	-
2014	3.90%	45,005	205,000	250,005		-	-	-
2015	4.00%	37,010	215,000	252,010		-	-	-
2016-2018	4.1-4.15%	57,760	690,000	747,760		-	-	-
Totals		<u>\$ 300,394</u>	<u>\$ 1,350,000</u>	<u>\$ 1,650,394</u>		<u>\$ 17,172</u>	<u>\$ 265,000</u>	<u>\$ 282,172</u>

Year Ending June 30,	Totals		
	Interest	Principal	Total
2011	\$ 66,524	\$ 165,000	\$ 231,524
2012	58,852	145,000	203,852
2013	52,415	195,000	247,415
2014	45,005	205,000	250,005
2015	37,010	215,000	252,010
2016-2018	57,760	690,000	747,760
Totals	<u>\$ 317,566</u>	<u>\$ 1,615,000</u>	<u>\$ 1,932,566</u>

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of June 1, 2009			
	Interest Rates	Interest	Principal	Total
2011	4.25%	\$ 174,447	\$ 100,000	\$ 274,447
2012	4.25%	170,198	100,000	270,198
2013	4.25%	165,947	140,000	305,947
2014	4.25%	159,998	145,000	304,998
2015	4.25%	153,835	150,000	303,835
2016-2020	4.25-4.75%	668,225	840,000	1,508,225
2021-2025	5.0-5.3%	450,433	1,050,000	1,500,433
2026-2029	5.3-5.45%	144,327	1,035,000	1,179,327
Totals		<u>\$ 2,087,410</u>	<u>\$ 3,560,000</u>	<u>\$ 5,647,410</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,560,000 of bonds issued in June 2010. The bonds were issued to finance remodeling projects at the JH/HS building and elementary. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 75% of the statewide sales and services tax revenues. The total principal and interest remaining to be paid on the bonds is \$5,647,410. For the current year, \$100,000 of principal and \$104,240 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$393,593.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$305,947 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2010.

Capital Loan Notes

Details of the District's June 30, 2010 capital loan notes are as follows:

Year Ending	Interest			
June 30,	Rates	Principal	Interest	Total
2011	4.55%	\$ 150,000	\$ 14,265	\$ 164,265
2012	4.65%	<u>155,000</u>	<u>7,440</u>	<u>162,440</u>
Totals		<u>\$ 305,000</u>	<u>\$ 21,705</u>	<u>\$ 326,705</u>

Compensated Absences

Certain District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. The District's maximum liability for accumulated compensated absences was \$60,220 at June 30, 2010. No individuals had requested payment for unused vacation hours as of June 30, 2010.

Termination Benefits

Certified District employees who have 10 years of continuous service at Highland Community School District and are age 55 or older are eligible for early retirement pay. The early retirement incentive for each eligible certified employee approved by the Board shall be the cost to the District for providing continuing coverage under the District's group insurance plan until the certified employee becomes eligible for Medicare. The coverage shall constitute the employee's single health and dental coverage applicable at the time of separation. The certified employee must meet the requirements of the insurer to continue coverage under this plan.

The Board has complete discretion to offer or not offer an early retirement plan for certified employees on an annual basis. The Board may discontinue the District's early retirement plan at any time.

The employee must notify the Board by March fifteenth to receive the early retirement benefits. At June 30, 2010, the maximum accumulated retirement benefits of the District was \$187,496 and nine individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2010 totaled \$43,297.

Note 8. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.30%, 4.10 % and 3.90% of their annual covered salary and the District was required to contribute 6.65%, 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$289,373, \$254,546 and \$213,823, respectively, equal to the required contributions for each year.

Note 9. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 121 active, of which 33 were excluded from the valuation, and ten retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 254,377
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	254,377
Contributions made	(49,700)
Increase in net OPEB obligation	204,677
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 204,677</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$49,700 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/10	\$ 254,377	19.5%	\$ 204,677

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1,583,071, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,583,071. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.35 million and the ratio of UAAL to covered payroll was 36.4%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$259,507 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Deficit Balances

The District had unreserved, undesignated fund deficits in the General Fund and Enterprise Fund-School Nutrition Fund of \$697,313 and \$24,951 at June 30, 2010. The business-type activities and the Enterprise Funds also had negative unrestricted net assets of \$22,701 at June 30, 2010.

Note 13. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2010, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 14. Related Party Transactions

The District had business transactions between the District and District officials totaling \$2,500 during the year ended June 30, 2010.

Note 15. New Governmental Accounting Standards Board (GASB) Statements

The District implemented the following statements during the year ended June 30, 2010:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The effect of the adoption of this Statement to the

District was to record a liability of \$204,677 for the net other postemployment benefit obligation. The actuarial accrued liability is estimated by an actuary to be \$1,583,071.

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. This Statement had no effect to the District since the District had no intangible assets to be reported as of June 30, 2010.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in the Statement also addresses hedge accounting requirements. This Statement had no effect to the District. Furthermore, Iowa Code Chapter 128.10 does not authorize districts to invest in derivative instruments.
- GASB Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs. The adoption of this statement had no effect to the District.

As of June 30, 2010, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Issued March 2009, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance clarifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which government is bound to observe spending constraints.

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 59, Financial Instruments Omnibus, issued June 2010, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, Accounting and Financial Reporting for Derivative Instruments, and applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Required Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$ 4,339,127	\$ 201,641	\$ 4,540,768	\$ 4,276,169	\$ 4,276,169	\$ 264,599
State sources	3,124,710	3,189	3,127,899	3,808,858	3,808,858	(680,959)
Federal sources	536,662	134,841	671,503	185,192	185,192	486,311
Total revenues	<u>8,000,499</u>	<u>339,671</u>	<u>8,340,170</u>	<u>8,270,219</u>	<u>8,270,219</u>	<u>69,951</u>
Expenditures/Expenses						
Current						
Instruction	4,683,395	-	4,683,395	4,980,178	4,980,178	296,783
Support services	2,336,379	11,659	2,348,038	2,508,826	2,508,826	160,788
Non-instructional programs	-	324,513	324,513	264,051	300,000	(24,513)
Other expenditures	4,135,925	-	4,135,925	4,020,214	4,500,000	364,075
Total expenditures/expenses	<u>11,155,699</u>	<u>336,172</u>	<u>11,491,871</u>	<u>11,773,269</u>	<u>12,289,004</u>	<u>797,133</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(3,155,200)	3,499	(3,151,701)	(3,503,050)	(4,018,785)	867,084
Net other financing sources	<u>500</u>	<u>-</u>	<u>500</u>	<u>1,000</u>	<u>1,000</u>	<u>(500)</u>
Net change in fund balance	(3,154,700)	3,499	(3,151,201)	(3,502,050)	(4,017,785)	866,584
Balance, beginning of year	3,942,076	(7,157)	3,934,919	4,432,042	4,432,042	(497,123)
Balance, end of year	<u>\$ 787,376</u>	<u>\$ (3,658)</u>	<u>\$ 783,718</u>	<u>\$ 929,992</u>	<u>\$ 414,257</u>	<u>\$ 369,461</u>

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures / expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeting expenditures by \$515,735.

During the year ended June 30, 2010, expenditures in the Non-instructional Programs functional area exceeded the amount budgeted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
2010	July 1, 2009	\$ -	\$1,583,071	\$1,583,071	\$ -	\$4,349,462	36.4%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

Schedule 1

	<u>Special Revenue</u>				
	<u>Student</u>	<u>Management</u>	<u>Physical</u>	<u>Debt</u>	
	<u>Activity</u>	<u>Levy</u>	<u>Plant and</u>	<u>Service</u>	<u>Total</u>
			<u>Equipment</u>		
			<u>Levy</u>		
Assets					
Cash and pooled investments	\$ 87,063	\$ -	\$ 30,102	\$ 18,367	\$135,532
Receivables					
Property tax	-	3,897	6,024	3,710	13,631
Delinquent	-	185,000	379,879	232,324	797,203
Succeeding year	-	25	38	24	87
Due from other governments	<u>\$ 87,063</u>	<u>\$ 188,922</u>	<u>\$416,043</u>	<u>\$254,425</u>	<u>\$946,453</u>
Total assets					
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 7,822	\$ -	\$ 7,822
Negative cash	-	1,640	-	-	1,640
Deferred revenue	-	185,000	379,879	232,324	797,203
Succeeding year property tax	<u>-</u>	<u>185,000</u>	<u>379,879</u>	<u>232,324</u>	<u>797,203</u>
Total liabilities	<u>-</u>	<u>186,640</u>	<u>387,701</u>	<u>232,324</u>	<u>806,665</u>
Fund balances					
Reserved for debt service	-	-	-	22,101	22,101
Unreserved fund balances	87,063	2,282	28,342	-	117,687
Total fund balances	<u>87,063</u>	<u>2,282</u>	<u>28,342</u>	<u>22,101</u>	<u>139,788</u>
Total liabilities and fund balances	<u>\$ 87,063</u>	<u>\$ 188,922</u>	<u>\$416,043</u>	<u>\$254,425</u>	<u>\$946,453</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

Schedule 2

	Special Revenue				
	Student Activity	Management Levy	Physical Plant and Equipment Levy	Debt Service	Total
Revenues					
Local sources	\$ -	\$150,137	\$369,418	\$229,215	\$ 748,770
Local taxes	117,595	11,635	106,917	83	236,230
Other	-	80	148	92	320
State sources	<u>117,595</u>	<u>161,852</u>	<u>476,483</u>	<u>229,390</u>	<u>985,320</u>
Total revenues					
Expenditures					
Current					
Instruction	-	8,950	-	-	8,950
Regular	<u>110,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,682</u>
Other	<u>110,682</u>	<u>8,950</u>	<u>-</u>	<u>-</u>	<u>119,632</u>
Total instruction					
Support services	-	-	167,573	-	167,573
Instructional staff	-	104,055	-	-	104,055
Administration	-	46,936	9,402	-	56,338
Operation and maintenance of plant	-	10,246	15,217	-	25,463
Transportation	<u>-</u>	<u>161,237</u>	<u>192,192</u>	<u>-</u>	<u>353,429</u>
Total support services					
Other expenditures	-	-	141,454	-	141,454
Facilities acquisition					
Long-term debt	-	-	-	400,000	400,000
Principal	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,568</u>	<u>200,568</u>
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>141,454</u>	<u>600,568</u>	<u>742,022</u>
Total other expenditures	<u>110,682</u>	<u>170,187</u>	<u>333,646</u>	<u>600,568</u>	<u>1,215,083</u>
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>6,913</u>	<u>(8,335)</u>	<u>142,837</u>	<u>(371,178)</u>	<u>(229,763)</u>
Other financing sources (uses)	-	-	-	370,285	370,285
Interfund operating transfers in	-	-	(166,045)	-	(166,045)
Interfund operating transfers (out)	<u>-</u>	<u>-</u>	<u>(166,045)</u>	<u>370,285</u>	<u>204,240</u>
Total other financing sources (uses)	<u>6,913</u>	<u>(8,335)</u>	<u>(23,208)</u>	<u>(893)</u>	<u>(25,523)</u>
Net change in fund balances	<u>80,150</u>	<u>10,617</u>	<u>51,550</u>	<u>22,994</u>	<u>165,311</u>
Fund balances, beginning of year	<u>\$ 87,063</u>	<u>\$ 2,282</u>	<u>\$ 28,342</u>	<u>\$ 22,101</u>	<u>\$ 139,788</u>
Fund balances, end of year					

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,149	\$ 6,672	\$ 12,821
Due from other governments	462	-	462
Inventories	2,077	-	2,077
Capital assets, net of accumulated depreciation	19,043	-	19,043
Total assets	<u>27,731</u>	<u>6,672</u>	<u>34,403</u>
Liabilities			
Accounts payable	662	-	662
Salaries and benefits payable	17,781	4,422	22,203
Deferred revenue	3,696	-	3,696
Due to other fund	11,500	-	11,500
Total liabilities	<u>33,639</u>	<u>4,422</u>	<u>38,061</u>
Net Assets			
Invested in capital assets	19,043	-	19,043
Unrestricted	(24,951)	2,250	(22,701)
Total net assets	<u>\$ (5,908)</u>	<u>\$ 2,250</u>	<u>\$ (3,658)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

Schedule 4

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources	\$176,360	\$25,243	\$ 201,603
Charges for service			
Operating expenses			
Support services			
Administration	8,209	-	8,209
Salaries	1,160	-	1,160
Benefits	545	-	545
Purchased services	9,914	-	9,914
Operation and maintenance of plant	1,745	-	1,745
Purchased services	11,659	-	11,659
Total support services			
Non-instructional programs	107,812	30,484	138,296
Salaries	18,002	-	18,002
Benefits	984	-	984
Purchased services	164,927	58	164,985
Supplies	2,246	-	2,246
Depreciation	293,971	30,542	324,513
	305,630	30,542	336,172
Total operating expenses			
	(129,270)	(5,299)	(134,569)
Operating loss			
Non-operating revenue	-	38	38
Interest income	3,189	-	3,189
State sources	134,841	-	134,841
Federal sources	138,030	38	138,068
Total non-operating revenue			
	8,760	(5,261)	3,499
Net income (loss)	(14,668)	7,511	(7,157)
Net assets, beginning of year	\$ (5,908)	\$ 2,250	\$ (3,658)
Net assets, end of year			

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

Schedule 5

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities	\$ 175,361	\$25,243	\$ 200,604
Cash received from sale of services	(138,128)	(30,501)	(168,629)
Cash payments to employees for services	(135,337)	(58)	(135,395)
Cash payments to suppliers for goods and services	(98,104)	(5,316)	(103,420)
Net cash used in operating activities			
Cash flows from non-capital financing activities	3,189	-	3,189
State grants received	101,617	-	101,617
Federal grants received	104,806	-	104,806
Net cash provided by non-capital financing activities			
Cash flows from capital and related financing activities	(1,892)	-	(1,892)
Acquisition of capital assets			
Cash flows from investing activities	-	38	38
Interest on investments	4,810	(5,278)	(468)
Net increase (decrease) in cash and cash equivalents	1,339	11,950	13,289
Cash and cash equivalents, beginning of year	\$ 6,149	\$ 6,672	\$ 12,821
Cash and cash equivalents, end of year			
 Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$(129,270)	\$ (5,299)	\$(134,569)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	2,246	-	2,246
Commodities used	32,762	-	32,762
(Increase) in inventory	(560)	-	(560)
(Decrease) in deferred revenue	(999)	-	(999)
(Decrease) in due to other funds	(7,300)	-	(7,300)
Increase in accounts payable	662	-	662
Increase (decrease) in accrued salaries and benefits	4,355	(17)	4,338
Net cash used in operating activities	\$ (98,104)	\$ (5,316)	\$(103,420)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010 the District received \$32,762 of federal commodities.

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2010

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Vocal	\$ 643	\$ 1,856	\$ 2,890	\$ -	\$ (391)
Instrumental	1,840	1,255	993	-	2,102
Pop & concessions	1,698	6,303	7,208	-	793
Student fundraising	6,835	-	-	-	6,835
Sixth grade class	-	115	-	-	115
Seventh grade class	125	50	-	-	175
Eighth grade class	140	25	-	-	165
Freshman class	250	580	674	-	156
Sophomore class	245	-	-	-	245
Junior class	464	2,813	1,895	-	1,382
Senior class	2,057	571	803	-	1,825
Prior year senior class	1,064	-	-	(1,064)	-
Annual	5,792	7,644	7,902	-	5,534
Cheerleaders	2,184	2,056	3,879	-	361
Drill team	(364)	5,155	4,465	-	326
National Honor Society	249	437	834	-	(148)
Sr high student council	855	404	955	1,064	1,368
Jr high student council	1,181	389	518	-	1,052
Drama club	211	-	189	-	22
Art club	665	100	-	-	765
Spanish club	237	-	-	-	237
Athletics	30,371	81,380	72,850	-	38,901
Riverside fund	11,464	2,787	1,723	-	12,528
Ainsworth fund	4,096	1,748	1,917	-	3,927
Middle school fund	7,014	1,927	554	-	8,387
High school fund	834	-	433	-	401
Totals	<u>\$ 80,150</u>	<u>\$ 117,595</u>	<u>\$ 110,682</u>	<u>\$ -</u>	<u>\$ 87,063</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Seven Years

Schedule 7

	Modified Accrual Basis						
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues							
Local sources	\$ 3,208,770	\$3,074,108	\$2,958,685	\$2,693,149	\$2,521,084	\$2,284,988	\$ 1,975,205
Local tax	603,302	534,280	466,772	395,840	340,475	274,251	231,774
Tuition	527,055	355,805	399,915	409,119	314,129	273,500	243,793
Other	-	-	-	-	12,600	-	-
Intermediate sources	-	-	-	-	2,965,288	2,643,349	2,566,864
State sources	3,124,390	3,655,379	3,494,399	3,053,772	2,965,288	2,643,349	2,566,864
Federal sources	536,662	179,295	144,692	133,911	147,397	125,535	125,143
Total revenues	<u>\$ 8,000,179</u>	<u>\$7,798,867</u>	<u>\$7,464,463</u>	<u>\$6,685,791</u>	<u>\$6,300,973</u>	<u>\$5,601,623</u>	<u>\$ 5,142,779</u>
Expenditures							
Current							
Instruction	\$ 2,671,903	\$2,862,465	\$2,529,325	\$2,327,498	\$2,340,221	\$2,041,513	\$ 1,871,992
Regular	1,084,270	969,265	851,882	775,085	717,324	646,978	626,402
Special	927,222	719,521	781,751	707,213	440,947	527,389	332,137
Other	-	-	-	-	-	-	-
Support services	-	-	-	-	91,367	84,720	133,943
Student	120,763	78,088	73,865	76,196	91,367	84,720	133,943
Instructional staff	386,363	290,327	393,429	422,532	269,235	238,941	299,640
Administration	894,878	942,053	760,712	722,347	659,599	582,102	500,669
Operation and maintenance of plant	604,105	648,824	597,414	523,452	495,074	438,447	367,344
Transportation	330,270	383,141	250,736	280,656	361,661	175,373	175,000
Non-instructional programs	-	-	-	-	-	4,766	3,749
Other expenditures	-	-	-	-	-	-	-
Facilities acquisition	3,275,850	804,363	117,250	229,728	75,898	83,515	1,210,971
Long-term debt	-	-	-	-	-	-	-
Principal	400,000	290,000	280,000	260,000	265,395	266,405	219,477
Interest and other charges	200,568	108,497	120,692	131,900	198,608	163,902	228,534
AEA flowthrough	259,507	234,627	222,787	205,846	194,410	175,545	183,551
Total expenditures	<u>\$11,155,699</u>	<u>\$8,331,171</u>	<u>\$6,979,843</u>	<u>\$6,662,453</u>	<u>\$6,109,739</u>	<u>\$5,429,596</u>	<u>\$ 6,153,409</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Schedule 8

Grantor/Program	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>	
Indirect				
U.S. Department of Agriculture				
Iowa Department of Education				
School Nutrition Cluster Programs	10.553	FY10	\$ 10,732	
School Breakfast Program	10.555	FY10	124,109	*
National School Lunch Program			<u>134,841</u>	
Total Department of Agriculture				
U.S. Department of Education				
Iowa Department of Education				
Title I, Part A Cluster	84.010	FY10	47,414	
Title I Grants to Local Educational Agencies				
ARRA - Title I Grants to Local Educational Agencies,	84.389	FY10	<u>26,247</u>	
Recovery Act			73,661	
			1,520	
Safe and Drug-free Schools and Communities-State Grants	84.186	FY10		
Improving Teacher Quality State Grants	84.367	FY10	21,086	
English Language Acquisition Grants	84.365	FY10	2,611	
Grants for State Assessments and Related Activities	84.369	FY10	4,381	
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Education State Grants, Recovery Act	84.394	FY10	<u>298,781</u>	
			<u>402,040</u>	
Total Iowa Department of Education				
Grant Wood Area Education Agency				
Special Education-Grants to States	84.027	FY10	33,011	**
Career and Technical Education -Basic Grants to States	84.048	FY10	5,489	
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	<u>90,263</u>	**
			<u>128,763</u>	
Total Area Education Agency			<u>530,803</u>	
Total Department of Education			<u>\$ 665,644</u>	
Total federal awards				

* Include \$32,762 of non-cash awards

** Total for Special Education Cluster (IDEA) is \$123,274

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Highland Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite 3
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Highland Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 2, 2011. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Highland Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Highland Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Highland Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal

control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II- B-10 and II-C-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Highland Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Highland Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Highland Community School District and other parties to whom Highland Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Highland Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2011

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite 3
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education
Highland Community School District

Compliance

I have audited the compliance of Highland Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Highland Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Highland Community School District's management. My responsibility is to express an opinion on Highland Community School District's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Highland Community School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Highland Community School District's compliance with those requirements.

In my opinion, Highland Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Highland Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and

performing my audit, I considered Highland Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Highland Community School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified deficiencies in internal control over compliance I consider to be material weaknesses.

A deficiency in the District's internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-10 and III-B-10 to be material weaknesses.

Highland Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Highland Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Highland Community School District and other parties to whom Highland Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2011

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part I. Summary of the Independent Auditor's Results

1. Unqualified opinions were issued on the financial statements.
2. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.
4. Material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
 - CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 10.553 School Breakfast Program
 - CFDA Number 10.555 National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Highland Community School District did not qualify as a low-risk auditee.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

II-B-10 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. The business manager has completed the Iowa School Business Management Academy and regularly attends school finance conferences to renew the certification and keep updated on new accounting and GAAP requirements applicable to her job requirements. However, the business manager does not keep current on the constantly-changing disclosure requirements

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

necessary to prepare the footnote disclosures required for the annual financial statements, as we have determined that this is outside of her job duties. We believe it is more efficient use of District funds to have the auditor prepare the annual financial statements and footnote disclosures.

Conclusion - Response accepted.

II-C-10 Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. The retainage payable on the building project was not accrued in the Capital Projects Fund. This misstatement will result in a correction to the beginning balances of the Capital Projects Fund on next year's CAR.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide more oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

CFDA Number 10.553 School Breakfast Program
CFDA Number 10.555 National School Lunch Program
Federal Award Year: 2010

U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State
Grants, Recovery Act
Federal Award Year: 2010

U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

III-B-10 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. The business manager has completed the Iowa School Business Management Academy and regularly attends school finance conferences to renew the certification and keep updated on new accounting and GAAP requirements applicable to her job requirements. However, the business manager does not keep current on the constantly-changing disclosure requirements

necessary to prepare the footnote disclosures required for the annual financial statements, as we have determined that this is outside of her job duties. We believe it is more efficient use of District funds to have the auditor prepare the annual financial statements and footnote disclosures.

Conclusion - Response accepted.

Part IV. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2010 exceeded the amended certified budget amount in the non-instructional programs functional area.

Recommendation - Although the certified budget was amended in accordance with Chapter 24.9 of the Code of Iowa, it was not amended to a sufficient amount, before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

2. Questionable Expenditures - I did not note any expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bev Colbert, business manager part owner of Colbert Trucking	Trucking services	\$2,500

The transactions with business manager Colbert's business do not appear to represent a conflict of interest since it did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance		\$ 3,985,340
Revenues		
Statewide sales and services tax revenue	\$ 393,593	
Interest earned	2,436	
Donations	<u>240,000</u>	636,029
Expenditures/transfers out		
School infrastructure		
Equipment	\$ (67,695)	
Construction services	(3,134,396)	
Debt service for school infrastructure		
Revenue debt	<u>(204,240)</u>	<u>(3,406,331)</u>
Ending balance		<u>\$ 1,215,038</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 0.92212	\$ 204,240
Physical plant and equipment levy	\$ 0.85491	<u>\$ 189,353</u>
		<u>\$ 393,593</u>

13. Financial Condition - The District had unreserved, undesignated deficits in the General Fund and Enterprise-School Nutrition Fund of \$697,313 and \$24,951 at June 30, 2009. The business-type activities and the Enterprise Funds also had negative unrestricted net assets of \$22,701 at June 30, 2010.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

Response - We will review the situation and implement changes, as needed.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2010

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant

HIGHLAND COMMUNITY SCHOOL DISTRICT
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2010

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-10	Segregation of Duties	District will investigate and implement alternative procedures to increase segregation of duties.	Bev Colbert Business Manager (319) 648-3822	6/30/2011
III-B-10	Fincancial Statement Preparation	District will investigate and implement alternative procedures to increase controls		

HIGHLAND COMMUNITY SCHOOL DISTRICT

Summary Schedule of Prior Federal Audit Findings For the Year Ended June 30, 2010

The district was not required to have a Single Audit in compliance with OMB Circular A-133 for the prior year (year ended June 30, 2009) therefore, there were no prior audit findings to report.